

# Information Sheet: Democrats fight to close Bermuda Triangle tax loophole

The “Bermuda Triangle” corporate tax loophole involves former U.S. companies who set up paper headquarters in tax havens (most often, Bermuda) in order to avoid U.S. taxes. Many of these fleeing companies also set up sham corporations in third countries – those with tax treaties with the U.S. such as Luxembourg or Barbados – in order to avoid taxes on *U.S.-source*, as well as foreign-source income.

Congressman Richard Neal, a senior Democratic member of the House Ways and Means Committee, first introduced the Corporate Patriot Enforcement Act in 2002 to address this problem. The bill puts a permanent stop to companies using sham “parent companies” in Bermuda to avoid paying their fair share.

On February 5, 2003, Neal announced his re-introduction of the bill in the House joined by Senator Harry Reid of Nevada and Senator Carl Levin of Michigan, who introduced the bill in the Senate.








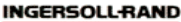
The Neal bill simply says corporate expatriates have to continue to pay U.S. income tax, if more than 80% of their owners are exactly the same as before the sham foreign reincorporation. According to the Joint Committee on Taxation, enacting this bill would save over \$4 billion over ten years for U.S. taxpayers.

The Republicans and some of their friends in the accounting industry continue to defend this practice even after September 11<sup>th</sup> and the Iraq war. One aggressive Big Five accountant said only two months after September 11<sup>th</sup>, “*maybe the patriotism issue needs to take a back seat to [corporate earnings].*”

Congress must not allow corporate traitors to leave individual Americans stuck with the tax bill while they put profits over patriotism.

- *The New York Times* says, “Even in the best of times, it is outrageous for companies to engage in offshore shenanigans to avoid paying their fair share of taxes. Doing so after the Enron scandal, in dire fiscal times and when the nation is at war is unconscionable.”
- *The Houston Chronicle* says, “American companies that have no headquarters, no employees or operations in foreign tax havens should not be able to lower their taxes by, in essence, acquiring an island post office box. Basic fairness to American companies that remain incorporated in the United States is at stake.”
- Congressman Charles Rangel, the Ranking Democrat on the Ways and Means Committee, sums it up: “When companies set up these schemes and avoid paying their share to defend America’s homeland security in a time of war, legal or not, it is just plain wrong.”

Corporate expatriates benefit from over \$2 billion in lucrative government contracts, from fat consulting deals with U.S. government agencies to equipping airport screeners to helping the IRS collect taxes. They turn their backs on America at the same time that they reach their open hands out to America. The House Appropriations Committee in 2002 passed on a bipartisan basis provisions to prohibit “fleeing” companies from receiving Federal contracts. However, the GOP leadership weakened the provisions and the fight continues to stop companies that flee from paying their share but return with hat in hand lobbying for Federal contracts.

“Fleeing” Corporations with U.S. Government Contracts	
'01 Federal contracts	
	Federal Contracts in excess of <u>\$1 BILLION</u>
	Federal Contracts in excess of <u>\$1 BILLION</u>
	
	Federal Contracts in excess of <u>\$760 million</u>
	Federal Contracts in excess of <u>\$600 million</u>
	
	Federal Contracts in excess of <u>\$4 million</u>
	

Under our tax system, no individual can just decide he or she is suddenly a citizen of Bermuda when it comes to taxes but is still an American when it comes to everything else. If these companies flee their responsibilities to America in its time of need, then they and their executives do not deserve the benefits of America’s protection, economic environment, and government contracts.

The Neal bill is effective immediately for those companies that left the U.S. after September 11, 2001. For those who left before September 11, they must begin to pay U.S. taxes again in 2004. In contrast, a proposal first suggested last year by Ways and Means Committee Chairman Bill Thomas would grandfather the tax loophole for all companies that got away with it on or before March 20, 2002. This year, a plan floated by House Majority Leader Tom DeLay would move the date to March of 2003, specifically benefitting six companies that set up sham HQs in Bermuda or the Cayman Islands after September 11<sup>th</sup> and after many in Congress publically stated that the practice was wrong and should be abolished.

The Neal bill would be permanent law. In contrast, the Republican proposals are all stop-gap measure that re-instate the loophole. The Neal bill would be fair to all companies. In contrast, the Republican proposals would give an unfair advantage to companies that have already engaged in the practice. For example, Stanley Tools, which under political pressure, chose not to “re-incorporate” in Bermuda, would be placed at an unfair disadvantage because its competitors are allowed to get away with it under the Republican proposals.